

CMP: ₹ 647

Target: ₹ 750 (16%)

Target Period: 12 months

BUY

July 17, 2024

Steady quarter; guidance remains intact ...

About the stock: HDFC Life is among the most dominant players in the Indian life insurance industry with a strong distribution network, parentage, operating metrics.

- Balanced product mix with focus on non-par, protection & annuity business
- Industry leading VNB margins of 25%

Q1FY25 performance: HDFC Life deliver a balanced performance between business growth, driven by unit linked product, and VNB margin through higher traction in non-participating product. The company saw a 15% YoY rise in net profit led by 18% increase in backbook surplus. Premium growth came in at 9% YoY, driven by both new business premium (up 9% YoY to ₹ 6,400 crore) and renewals (10% increase YoY). Value of new business (VNB) grew by 18% YoY to ₹ 718 crore, although VNB margin contracted by 120 basis points to 25%, due to change in product mix. AUM expanded to ₹ 3,10,244 crore, while embedded value stood at ₹49611 crore, up 19%.

Investment Rationale

- Linked business remains robust; distribution strategy to aid business growth: APE growth remained healthy at 23% YoY, led by unit linked business through banca channel. As anticipated, linked business witnessed higher growth, amid buoyancy in capital market, taking share of unit linked at 38% in Q1FY25. Focus on chasing growth with balanced product mix (continued focus on protection & annuity business) aiming 12-15% growth in business. Strategy focussing on customer accretion banca channel and improvement in penetration in tier 2 & 3 markets could aid growth. While ramping of agency channel is underway, traction in business should take a while to be evident.
- VNB margin decline restricted; more volatility in near term: VNB margin declined 130 bps at 25%, amid higher traction in ulip business. However, focus on protection and non-par business assured moderation in the impact. While new surrender norms are expected to impact VNB margins (~100 bps), impact is expected to be toned down through alteration in product mix, better pricing and re-alignment of payout structure. Guidance on doubling of absolute VNB in next 4 years remains intact.

Rating and Target Price

- Strategy to focus on customer acquisition and improve penetration in tier 2 & 3 markets is seen to aid business growth. Impact of surrender norms to be reduced through tweaking of pricing and payouts. Expect RoEV is expected to remain steady at 17-18%.
- Valuing the stock at 2.5x FY26E EV, we revise target at ₹ 750 and maintain Buy recommendation.

Key Financial Summary

(₹ Crore)	FY21	FY22	FY23	FY24	3 year CAGR	FY25E	FY26E	2 year CAGR
New business premium	20107	24155	29085	29631	14%	34268	39494	15%
APE	8183	9664	13100	12963	17%	15100	17450	16%
Total premium	38583	45962	57533	63076	18%	71695	81827	14%
PAT	1360	1208	1360	1569		1770	1960	
EV	26625	30048	39526	47468		55520	65101	
P/E (x)	96.1	113.2	102.2	88.7		78.6	71.0	
P/BV (x)	15.1	8.8	10.7	9.5		8.8	8.1	
P/IEV (x)	4.9	4.5	3.5	2.9		2.5	2.1	
RoEV (%)	18.5	19.0	19.7	17.5		17.0	13.7	

Source: Company, ICICI Direct Research



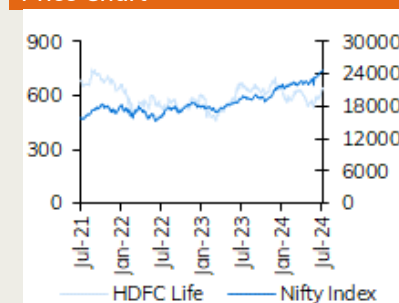
Particulars

Particulars	Amount
Market Capitalisation	₹ 1,38,921 crore
EV	₹ 49611 crore
AUM	₹ 310244 crore
52 week H/L	711/ 511
Net worth	₹ 14666 crore
Face value	10

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoters	50.3	50.4	50.4	50.4
FII	30.9	30.5	31.3	30.0
DII	6.2	6.9	6.6	7.9
Public	12.6	12.2	11.8	11.6

Price Chart



Key risks

- Higher than expected erosion in margins
- Higher competitive intensity impacting business growth & IRR

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Concall highlights and outlook

- Product mix includes - ULIP at 38%, Non-par savings at 35%, Participating products at 16%, Term loans at 6% and Annuity at 5%.
- Retail sum assured for the company surged by 46% due to increased protection policies, larger policy amounts for savings products, and a significant rise in add-on ride.
- The company saw a 22% increase in no. of policies and 7% expansion in ticket size. The company experienced resurgence in Tier 1 cities and Tier 2 & 3 cities continue to contribute 2/3rd of the business in terms of APE and 3/4th of business in proportion to number of policies.
- The company observed strong growth in non-par products with the segment achieving a 41% YoY growth. Annuity and protection products accounted for 47% of the company's new business income.
- Financials: The company saw 120 bps decline in margin during the quarter primarily due to product mix (~130 bps) and 20 bps owing to change in assumptions offset by 30 bps of fixed cost absorption led by business growth.
- The credit protection sector experienced stagnant growth due to slower disbursement in specific business areas and increased competitive intensity among certain partners
- Solvency ratio stood at 186%. And in order to strengthen the solvency position, the company will raise sub-debt up to ₹2,000 crores in one or more tranches over the next 12 months. This would strengthen the ratio by 20%-22%
- The management anticipates growth impact of 100 bps on New Business margin due to high surrender value payable on early exits. Though impact is expected to be limited due to balanced approach to business.
- Target to double VNB in every 4 years with 19% CAGR through strategies such as selling higher coverage products and focusing on HDFC Bank partnership.
- The company does not see any change in accounting profit caused due to higher surrender value since they follow prudent pricing norms which is already factored in current assumptions.
- Project Inspire - The company's technology transformation initiative is progressing well on track and it is expected to be launched during Q3 or Q4 in the current year. This project aims to establish a unified platform which would increase efficiency and enhance decision-making and collaboration.
- Distribution: The management expressed confidence towards expansion into new geographies and entering new customer segments which will further drive growth for the next 3-4 years.
- Counter share in HDFC Bank continued to be healthy, reaching 66% by the end of the quarter, up from 56.5% during the same quarter last year.
- Business growth from HDFC bank was around 41% of which 18% is due to counter share increase & around 20%-22% was holistic increase
- Focus on expanding agency network, recruiting top talent and investing in technology. The company added 18,500 agents during the quarter and 60 new locations, increasing the aggregate number of branches to ~600
- The company recently partnered with Upstox, Fino Payments bank, Fearless financial services with an aim of actively forging new partnerships and thereby tapping into new customer segments.

Exhibit 1: Variance Analysis

	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comments
First Year Premium	2,357.9	1,851.4	27.4	4,014.6	-41.3	Increasing market share aiding FYP
Renewal Premium	6,410.6	5,804.1	10.5	11,406.0	-43.8	Improving persistency ratio driving renewal premium
Single Premium	4,042.4	4,017.3	0.6	5,517.0	-26.7	
Net Premium income	12,509.6	11,479.8	9.0	20,488.1	-38.9	
Income from Investments	14,197.5	11,732.8	21.0	7,404.5	91.7	Windfall gains from ULIP segment aids income from investment
Total revenue	26,707.2	23,212.6	15.1	27,892.6	-4.3	
Commission	1,470.3	661.7	122.2	2,162.1	-32.0	
Operating expenses	1,267.2	1,626.4	-22.1	1,760.5	-28.0	Total expense ratio higher at 21%
Management Expenses	2,737.5	2,288.1	19.6	3,922.5	-30.2	
Benefits paid	8,827.8	8,072.8	9.4	12,420.5	-28.9	
Change in Actuarial Liability	14,565.7	12,563.6	15.9	11,156.0	30.6	
Total Expenses	23,393.5	20,636.4	13.4	23,576.5	-0.8	
Surplus/ (deficit)	464.3	211.8	119.2	272.5	70.4	VNB margins declined at 25% owing to change in product mix
Transfer to SH's A/c	266.5	231.7	15.0	302.7	-12.0	
Investment income	257.2	231.7	11.0	255.7	0.6	
Profit/ (loss) before tax	497.5	416.6	19.4	449.7	10.6	
PAT	477.7	415.3	15.0	411.7	16.0	Growth in backbook surplus accelerating PAT
Key Metrics						
NBP	6,400.3	5,868.7	9.1	9,531.6	-32.9	
AUM	3,10,244.0	2,53,300.6	22.5	2,92,220.1	6.2	Healthy AUM growth at 22%
IEV	49,611.0	41,843.0	18.6	47,468.0	4.5	

Financial Summary

Exhibit 2: Profit and loss statement

₹ crore

(₹ Crore)	FY23	FY24	FY25E	FY26E
Premiums earned - Net	56764.0	61959.2	70734.4	80732.1
Interest, Dividends & Rent	12844.7	15811.5	16072.9	18358.0
Others income (incl. MTM)	1096.8	460.8	3385.5	3792.7
Total Revenue	70,705	78,231	90,193	1,02,883
Commission	2910.8	5256.3	4151.2	4742.7
Operating expenses	8437.4	6901.1	9321.5	10597.4
Benefits paid (Net)	38872.3	39696.5	45264.8	50513.5
Change in valuation of policy liabilities	18586.2	48419.4	27013.9	30629.6
Provision for tax	159.1	-592.4	83.9	35.7
Surplus/(deficit) after tax	1335.0	-21767.6	1507.1	1860.7
Transfer to Shareholders' account	1,469	799	1,346	1,667
(₹ Crore)				
	FY23	FY24	FY25E	FY26E
Amounts transferred from Policyholders	1468.9	799.1	1346.2	1667.1
Income from investments	719.7	1002.2	1117.3	1080.4
Total	2,252	1,814	2,463	2,748
Total expenses	979.4	250.5	745.0	845.0
Profit before Tax	1272.4	1563.8	1718.4	1902.6
Provision for tax	-87.7	-5.0	-51.6	-57.1
PAT	1,360	1,569	1,770	1,960

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet

₹ crore

(₹ Crore)	FY23	FY24	FY25E	FY26E
Sources of Funds				
Share capital	2149	2151	2151	2151
Reserve and surplus	10815	12050	13255	14581
Credit/(debit) fair value change account	20	451	466	483
Networth	12987	14652	15872	17215
Policyholders' funds	224447	276916	329319	389574
Funds for Future Appropriations	2185	2161	2322	2516
Total Liabilities	239619	293729	347514	409305
Applications of Funds				
Shareholders' investments	13132	14882	16370	18007
Policyholders' investments	146449	181797	203612	228046
Asset held to cover linked liabilities	79201	95542	105096	115605
Loans	1585	1897	2430	2963
Fixed assets - net block	380	416	424	433
Net current assets	-1326	-804	19582	44251
Total Assets	239422	293729	347514	409305

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY23	FY24	FY25E	FY26E
Valuation				
Diluted EPS (₹)	6.3	7.3	8.2	9.1
BV (₹)	60.4	68.1	73.8	80.0
EV per share	183.9	220.7	258.1	302.7
P/E	102.2	88.7	78.6	71.0
P/BV	10.7	9.5	8.8	8.1
P/IEV	3.5	2.9	2.5	2.1
Efficiency Ratios (%)				
Commission expenses as a % of Gross Premium	5.1	8.3	5.8	5.8
Management expenses as a % of Gross Premium	19.7	19.3	18.8	18.7
Return Ratios and capital (%)				
Return on Net worth	18.1	18.2	18.2	18.2
Operating RoEV	18.2	17.5	17.5	17.8
Key Ratios (%)				
VNB Margin	27.6	26.3	25.5	25.6

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY23	FY24	FY25E	FY26E
NBP	29085	29631	34268	39494
Growth (%)	20	2	16	15
Linked	12400	14733	17724	21177
Growth (%)	3	19	20	19
Non Linked	45134	48344	53972	60650
Growth (%)	33	7	12	12
APE	13336	12963	15100	17450
Growth (%)	38	-3	16	16
VNB	3674	3501	4087	4795
Growth (%)	37	-5	17	17
EV	39527	47468	55520	65101
Growth (%)	32	20	17	17
AUM	238782	292220	325078	361658
Growth (%)	17	22	11	11
PH Funds	146449	181797	203612	228046
Growth (%)	35	24	12	12
SH Funds	13132	14882	16370	18007

Source: Company, ICICI Direct Research

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